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SUBJECT: BUDGET EXECUTION: WHAT THE IRAQIS SAY, OR FAIL TO

REF: BAGHDAD 3616

Sensitive but unclassified - protect accordingly.

¶1. (SBU) Summary. Despite improved results in provincial budget execution in 2008, the Government of Iraq (GOI) and provincial government offices continue to be hampered by insufficient staffing levels, unclear policies and poor communication. Representatives from the two groups briefed PRT and U.S. military personnel at a two-day workshop that focused on Iraqi views of provincial budget execution. Their presentations validated many USG concerns about why the Iraqi system needs to be reformed. All speakers agreed that Iraq suffers from a shortage of experienced project engineers to properly manage its large number of pending contracts. Animosity between national and provincial officials, and even between certain ministries, was evident. Several key GOI speakers failed to show up for the workshop and another declined to speak despite being present, reflecting a lack of cooperation and unwillingness to be subject to questions. Conversely, provincial government representatives showed strong motivation to resolve problems. End summary.

¶2. (SBU) On November 23-24, the Embassy's Office of Provincial Affairs (OPA) and Treasury Attache's Office hosted approximately 70 PRT and military representatives at a budget execution workshop featuring predominately Iraqi speakers. The agenda called for GOI officials to describe how the Iraqi budget system is supposed to work on the first day, and have provincial representatives critique the system on the second day. In past events, these two sides have argued and blamed each other for failures in budget execution, so in theory keeping them separate would promote a more open discussion.

GOI (NON) SPEAKERS  
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¶3. (SBU) The Ministries of Planning (MOP) and Finance (MOF) are the two most important GOI entities involved in budget execution. The MOP must approve provincial projects before they are sent to the MOF for funding. Unfortunately, the two ministries do not always agree and have been known to avoid dealing with each other, despite the obvious necessity for a close working relationship. Three MOP representatives confirmed their speaking roles the day before the workshop, but none showed. All claimed they were called away to other meetings. One MOF speaker attended the morning session, but after being asked a somewhat difficult question, announced he would not be speaking, claiming the previous speaker had covered the same material he had planned to discuss. He departed without taking further questions from the audience. Thus, the two most important GOI offices, four speakers in all, contributed nothing to the workshop and displayed a complete lack of leadership and transparency.

¶4. (SBU) A representative from the Deputy Prime Minister's Office reported that during the first nine months of 2008, provincial capital budget execution was 50 percent higher than during the same

period in 2007, noticeable improvement throughout Iraq. He added that budget execution rates remain low because provinces have received more money than they can absorb given their staffing resources. He was the first to say, and all subsequent speakers agreed, that Iraq suffers from a shortage of experienced project engineers to manage construction projects. Without additional managers, the provinces' ability to execute their budgets is limited. Although he said the GOI would welcome PRT efforts to offer project management training, he blamed the provinces for not doing better. His office had asked all Iraqi ministries and provincial governments to list the problems they faced related to budget execution; all ministries had complied with this request but only two of 18 provinces had. (Note: OPA will work with PRTs to inquire why provincial governments did not comply).

#### PROVINCIAL REPRESENTATIVES EAGER TO HELP

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¶5. (U) Contingency planning provided the workshop with an abundance of speakers and provincial officials from Babil agreed to address the workshop a day early. They also returned the next day, despite a bomb attack near their hotel, to hear representatives from other provinces. As a group, the various provincial speakers agreed on the central problem they face with budget execution: provinces do not have enough experienced project engineers or managers to guide projects through to completion. Many projects involve significant construction work requiring close monitoring. Tiny Babil province alone has 1,400 existing projects and its neighbor, Anbar, has 800 more. Unless Iraq can attract foreign workers or expatriate Iraqis with project management experience, the provinces will have to wait to work through their backlogs. In addition, GOI-supplied provincial operating budgets to pay salaries are generally insufficient to hire enough people.

¶6. (SBU) The Iraqi budget process is very slow due to paperwork not being promptly completed and forwarded to the next step, and there are too many steps to follow -- sometimes 20 signatures are needed for a single approval. Easements and other land use issues cannot be started until a signed contract exists. These issues can take months to resolve in any country, but often can be done concurrently with the tendering process prior to the awarding of a contract to expedite progress. Corruption is pervasive, and even though each ministry has a General Inspector, these jobs are often awarded on the basis of personal connections rather than merit.

¶7. (SBU) Examples of ambiguous or conflicting information abound. The 2008 budget year (calendar year) will be closed in a matter of weeks, but it is still unclear what level of completion is necessary to allow funds to be considered obligated. Some people say a signed contract is necessary, others claim the funds must have actually been spent and still others feel lists of intended projects will suffice. In past years, unused budget funds were rolled over into the next budget year, but it is still unclear if this will happen in ¶2008. It is widely reported that the GOI will reduce the MOP's approval process in order to expedite budget execution and the new rules are already in effect. However, no one was able to confirm this, not even the speaker from the Deputy Prime Minister's Office. Finally, budgets have sometimes been approved late in the year leaving provincial governments little time to execute them. The 2008 supplemental budget, approved in August, was not formally passed until October. In addition, it doubled some provinces' annual funding levels and in some cases gave them significant amounts of money when they requested none. This made it virtually impossible to execute their budgets in 2008.

¶8. (SBU) Comment: GOI and provincial governments need to improve coordination and start pulling in the same direction. Although the provinces missed the opportunity to communicate their problems to the Deputy Prime Minister's Office when previously asked to do so, provincial representatives showed they were motivated to make changes to improve budget execution while the MOP and MOF failed to deliver. By giving provinces huge supplemental capital budgets late in the year, the GOI only exacerbated the workload problems of their small and inexperienced project management staffs. The GOI should invest more money to combat corruption and make sure its reconstruction efforts are done properly. Iraqi project management training programs are necessary and are being funded, but will take

time to produce results. In the meantime, USG continues to provide temporary assistance and expertise and to facilitate Iraqi capacity building efforts. End comment.

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